Andrea ENRIA
Chair of the Supervisory Board

COURTESY TRANSLATION

Dr Bruno Hollnagel
Member of the German Bundestag
Platz der Republik 1
11011 Berlin

Frankfurt am Main, 9 June 2020

Re: Your letter of 4 May 2020

Honourable Member of the Bundestag, dear Dr Hollnagel,

Thank you for your letter, which was passed on to me by your President, honourable Dr Schäuble, accompanied by a cover letter dated 4 May 2020.

Your letter covers a range of issues, particularly ECB Banking Supervision's approach to assessing banks' business models and communication relating to our tasks. I have also previously touched on the matter of business model analysis and capital requirements, for instance in my letter to Members of the European Parliament of 19 August 2019[1].

You are right to point out that, as a rule, I do not comment publicly on individual credit institutions. My remark was made in front of an audience of young students at the University of Rome, where I highlighted the challenges for a supervisory authority to intervene on banks' business models. As Deutsche Bank had announced an important management decision to change its business model shortly before the event, the reference came natural and was not associated with any supervisory judgment. In order to underline the exceptional character of my statement and ensure that my remarks reflect our general policies, I will answer your questions by explaining our supervisory practices.

Let me highlight that ECB Banking Supervision continually assesses the situation of supervised banks to ascertain whether they are in a position to comply with all prudential requirements in the foreseeable future. Heightened scrutiny is applied in periods when a bank's business model undergoes changes which affect the bank's risk profile and thus its capital and liquidity planning.

[1] Letter to MEPs Donato, Rinaldi and Zanni dated 19 August 2019.

As described in more detail in the Supervisory Manual[2], the Supervisory Review and Evaluation Process (SREP) is the key supervisory tool supporting ongoing supervisory assessments.[3] The SREP seeks to capture the best possible overall picture of an institution's risk profile, taking into account risks and mitigating factors. ECB Banking Supervision applies the common Single Supervisory Mechanism (SSM) SREP methodology to all significant institutions, facilitating peer comparisons and large-scale transversal analyses. The methodology thus ensures a level playing field across supervised institutions, while taking into account their specific features.

The assessment of business models is one of the four elements of the SREP. ECB Banking Supervision reviews each bank's business model to check that the institution is able to generate sufficient sustainable profits, enabling it to maintain levels of capital and liquidity commensurate with its risk profile, strategic plans and regulatory requirements. As part of their assessment, supervisors review how each bank's profits and losses evolve over time and analyse the drivers and components of a bank's financial and strategic plan along with the bank's execution of this plan. Any additional information collected as part of our supervisory work is swiftly taken into consideration in supervisory assessments and informs our decision-making.

ECB Banking Supervision strives to maintain a transparent dialogue with supervised banks on the process and conclusions of its assessments. This continuous supervisory dialogue also ensures that supervised banks are informed when – and for what reasons – supervisory views diverge from their own and how they can remediate weaknesses identified through the SREP.

As part of its drive to enhance transparency, the ECB – in addition to conveying the results of its annual SREP exercise bilaterally to each bank – for the first time in January 2020 published on its website aggregate data by business model[4] as well as the Pillar 2 capital requirements of 109 banks which had agreed to their disclosure.[5]

At that time, I expressed our satisfaction with the overall level of capital adequacy of the significant institutions under our supervision. In various public remarks, I noted that the SREP also highlighted remaining concerns, in particular regarding banks' business models, internal governance and operational risks, adding that we would "sharpen the focus of our supervisory work" in these areas.

You further ask to what extent the ECB is liable and subject to claims for damages as a result of its statements about a specific supervised bank. In that regard, the liability regime for the ECB, including the exercise of its supervisory tasks, is laid down in Article 340 of the Treaty on the Functioning of the European Union.

As to your query concerning the legal basis for the ECB's actions in general, and the ECB's assessment of profitability and profit targets in particular, please refer to the tasks conferred on the ECB by the SSM Regulation.[6]

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[2] SSM Supervisory Manual.

[3] As set out in the EBA Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing.

[4] Overall SREP 2019 key messages.

[5] Pillar 2 Requirement.

[6] Council Regulation (EU) 1024/2013 of 15 October 2013.

Article 4(1)(f) of this Regulation sets out that the tasks conferred on the ECB include carrying out supervisory reviews in order to determine whether the arrangements, strategies, processes and mechanisms put in place by credit institutions and the own funds held by these institutions ensure a sound management and coverage of their risks.

Moreover, the Capital Requirements Directive (CRD IV) requires competent authorities to review, as part of the SREP, the arrangements, strategies, processes and mechanisms implemented by the institutions. In addition to credit, market and operational risks, the review and evaluation performed by competent authorities must include credit institutions' business models.

Yours sincerely,

[signed]

Andrea Enria